

## Group Profit and Loss Account for the year ended 31st March 1978

	Notes	1978 £m	1977 £m
Sales		883.8	735.0
Profit before taxation	2	107.0	91.1*
Taxation	3	56.0	47.9
Profit after taxation		51.0	43.2
Attributable to minority interests		.7	.8
Profit attributable to shareholders	4	50.3	42.4
Dividends			
Excess provision relating to 1977 third interim		(1)	.1
Interim paid of 1.0779p per share		3.8	3.4
Second interim declared of 1.0183p per share		6.8	6.1
Provision for third interim of 0.0290p per share		.1	.1
3.0252p per share			
Profit retained		39.7	32.7
Earnings per share	5	14.1p	11.9p

\*£8.3m was charged against profits in the year to 31st March 1977 as a contribution towards a deficit in Boots Pension Fund. The directors do not think it necessary to make a further provision against the profits of the year to 31st March 1978.  
The notes on pages 23 to 28 form part of the accounts

## Sources and Applications of Funds for the year ended 31st March 1978

	1978		1977	
	£m	£m	£m	£m
<b>Sources</b>				
Profit before taxation		107.0		91.1
Depreciation		12.7		10.5
Book value of fixed assets sold		2.5		2.3
Pension provision		—		8.8
		122.2		112.7
Borrowed money		25.3		—
		147.5		112.7
<b>Applications</b>				
Capital expenditure		40.1		37.0
Investments		—		—
Working capital:				
Increase in stocks	24.9		33.7	
Increase in debtors	8.2		11.9	
Increase in creditors	(11.1)		(17.1)	
		22.0		28.5
Repayment of borrowed money		1		1
Payment to Boots Pension Fund		1.6		8.8
Dividends paid		10.0		8.9
Taxation paid		26.3		33.3
Other applications		2		5
		100.3		117.3
Subsidiaries acquired:				
Fixed assets	5.1			
Goodwill	15.0			
Stocks	8.4			
Debtors	2.8			
Cash	7.4			
Creditors	(11.8)			
Pension provision	(5)			
Minority interests	(1.1)			
		25.3		—
		125.6		117.3
Increase (1977 decrease) in net cash and short term investments		21.9		(4.6)
		147.5		112.7

## Balance Sheets 31st March 1978

	Notes	Group		Parent	
		1978 £m	1977 £m	1978 £m	1977 £m
<b>Sources of capital</b>					
<b>Shareholders' interests</b>					
Share capital	6	89.0	89.0	89.0	89.0
Reserves	7	178.7	152.5	109.0	80.3
		<b>267.7</b>	241.5	<b>198.0</b>	169.3
<b>Borrowed money</b>	8	34.8	11.6	24.1	7.8
<b>Minority interests</b>		3.5	1.9	—	—
<b>Deferred taxation</b>	9	74.1	47.8	36.3	16.7
<b>Provision for pensions</b>	10	7.7	8.8	7.2	8.8
		<b>387.8</b>	311.6	<b>265.6</b>	202.6
<b>Employment of capital</b>					
<b>Fixed assets</b>	11	221.0	194.4	52.0	41.7
<b>Subsidiaries</b>	12	—	—	115.3	99.1
<b>Investments</b>	13	1.0	1.0	1.0	1.0
<b>Net current assets</b>	14	162.6	116.2	96.8	60.8
		<b>387.8</b>	311.6	<b>265.6</b>	202.6

G. I. HOEDAY  
D. E. M. APPLEBY | Directors

The notes on pages 23 to 28 form part of the accounts

# Annual Report for the year ended 31st March 1978

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## Notice of the Annual General Meeting

Notice is hereby given that the annual general meeting of The Boots Company Ltd. will be held at The Chartered Insurance Institute, 20 Aldermanbury, London, EC2V 7HY, on Thursday the 20th day of July 1978, at 11.00 a.m. (A location map is available from the Secretary on request.)

The business of the meeting will be:

- (a) To receive the directors' report and statement of accounts and the auditors' report thereon.
- (b) To elect directors.
- (c) To appoint auditors.
- (d) To fix the remuneration of auditors.
- (e) To transact any other business which may be dealt with at the meeting.

### Notes

1. A member entitled to attend and vote may appoint one or more proxies (who need not be members) to attend and vote instead of him.
2. A statement of transactions of directors (and of their family interests) in the shares of the company will be available for inspection at 1 Thane Road West, Nottingham, on any weekday (Saturdays excluded) from the 22nd June to 19th July 1978, during usual business hours, and at the above address on 20th July 1978 from 10.30 a.m. until the conclusion of the meeting.
3. No director of the company has a written service agreement.

By order of the board, D. N. EDMUNDSON, Secretary.  
Dated this 22nd day of June 1978.

The directors would be glad to have an opportunity of meeting shareholders who will be attending.

Coffee will be served prior to the meeting from 10.30 a.m.

## Board of Directors

G. I. Hobday

Chairman

\*M. J. Verey

Vice chairman

A. D. Spencer

Vice chairman

Managing director—Retail Division

D. E. M. Appleby

Group managing director

P. T. Main, M.D.

Chief executive officer—Industrial Division

\*J. H. Arkell, C.B.E.

R. N. Gunn

H. J. Hann

B. Jefferies

\*Lord Radmayne, P.C., D.S.O.

\*B. F. W. Scott, C.B.E.

A. G. S. Wilkes

F. W. Wright, F.P.S.

D. N. Edmundson

Secretary

Registered office

Nottingham, NG2 3AA

Auditors

Peat, Marwick, Mitchell & Co.

Bankers

National Westminster Bank Ltd.

\*Non-executive directors

## Report of the Directors

### Profits, dividends and retentions

The directors present their ninetieth annual report to shareholders, together with the audited accounts for the year ended 31st March 1978.

The group profit and loss account shows a profit before taxation of £107.0m, compared with £91.1m for the previous year, and a profit after taxation of £51.0m as against £43.2m. The profit after taxation attributable to the shareholders is £50.3m compared with £42.4m for the previous year.

The directors have declared the payment of a second interim dividend of 1.9183p per share based on a rate of tax credit of 34%. The directors intend to make the maximum payment of dividend permitted under the Government's Counter-Inflation measures. Therefore they intend to declare a third interim dividend later in the year in the event of the rate of tax credit changing from 34%. On the assumption that the rate will change to 33% a provision has been made of 0.0290p per share in the accounts. These dividends are the maximum permitted under present legislation when added to the interim dividend of 1.0779p already paid.

The remainder of the group net profit after paying these dividends is £39.7m which has been transferred to reserves. Further details are shown on page 20.

### Acquisitions

As indicated in the previous report and accounts, during the year the group acquired the whole of the equity of the Rucker Pharmacal Company Inc. in the U.S.A., the whole of the equity of G. Tamblin Ltd. in Canada and 70% of the equity of Technochemie GmbH Verfahrenstechnik in Germany. Their results have been included from the dates of acquisition and do not significantly affect total group profits.

### Principal activities

The principal activities of the group are retailing of chemist and other merchandise and the research, manufacturing and marketing of pharmaceuticals, toiletries, and agricultural chemicals throughout the world.

Sales and profits are shown below:

	1978		1977	
	Sales £m	Profits £m	Sales £m	Profits £m
Retail Division				
UK	743.0	60.3	628.4	54.9
Overseas subsidiaries	14.2	(1)	1.7	—
Industrial Division				
UK	111.0	14.2	92.0	13.8
Exports from UK	44.4	17.0	36.9	15.9
Overseas subsidiaries	52.6	9.1	42.3	9.5
Sales within the group	(81.4)	—	(66.3)	—
Interest and other net income	883.8	100.5	735.0	94.1
Pension Fund provision	—	6.5	—	5.8
	—	—	—	(8.8)
	<b>883.8</b>	<b>107.0</b>	<b>785.0</b>	<b>91.1</b>

Principal activities—*ctd.*

## Sales and profits earned by geographical area are:

	1978 <sup>11</sup>		1977	
	Sales £m	Profits £m	Sales £m	Profits £m
Africa and Near East	17.1	4.5	15.0	4.2
Australasia	10.7	2.4	10.2	2.4
Asia	14.0	3.3	12.9	3.7
Americas	23.8	6.8*	7.1	5.8*
Europe	31.5	9.0	26.5	9.3
UK	786.7	74.5	663.3	68.7
	<b>883.8</b>	<b>100.5</b>	<b>735.0</b>	<b>94.1</b>

\*Including royalties of £3.0m (1977 £3.0m)

## Fixed assets

The directors are of the opinion that the market values of the properties of the group, which are all employed in the business, are substantially in excess of the net book value of £136.7m, which, together with movements of fixed assets, is shown in note 11 on page 26.

## Employees

The average weekly number of employees in the UK during the year was 67,044 which included 30,321 part-time staff. The aggregate remuneration paid to these employees was £131.1m.

The number of overseas employees was 4,137.

The 22 African employees of our South African company, are all paid above the M.E.L. Further information is available on request to the Secretary.

## Charitable and political payments

Payments totalling £137,000 have been made during the year for charitable and educational purposes. There were no political payments.

## Directors

Lord Reddy, P.C., D.S.O., retires by rotation in accordance with article 100 and offers himself for re-election. Mr. M. J. Verey, having attained the age of 65 has been requested by the board to continue in office pursuant to article 109(G).

The names of the directors and their interests in the share and loan capital of the company are shown on page 32.

No director had any interest, either during or at the end of the financial year, in any contract which was significant in relation to the group business.

## Company status

The Boots Company Ltd. is not a close company.

## Auditors

It is proposed to re-appoint Messrs. Peat, Marwick, Mitchell & Co., as auditors and a resolution concerning their remuneration will be proposed at the annual general meeting.

By order of the board. D. N. EDMUNDSON, Secretary. 22nd May 1978.



## Principal Companies

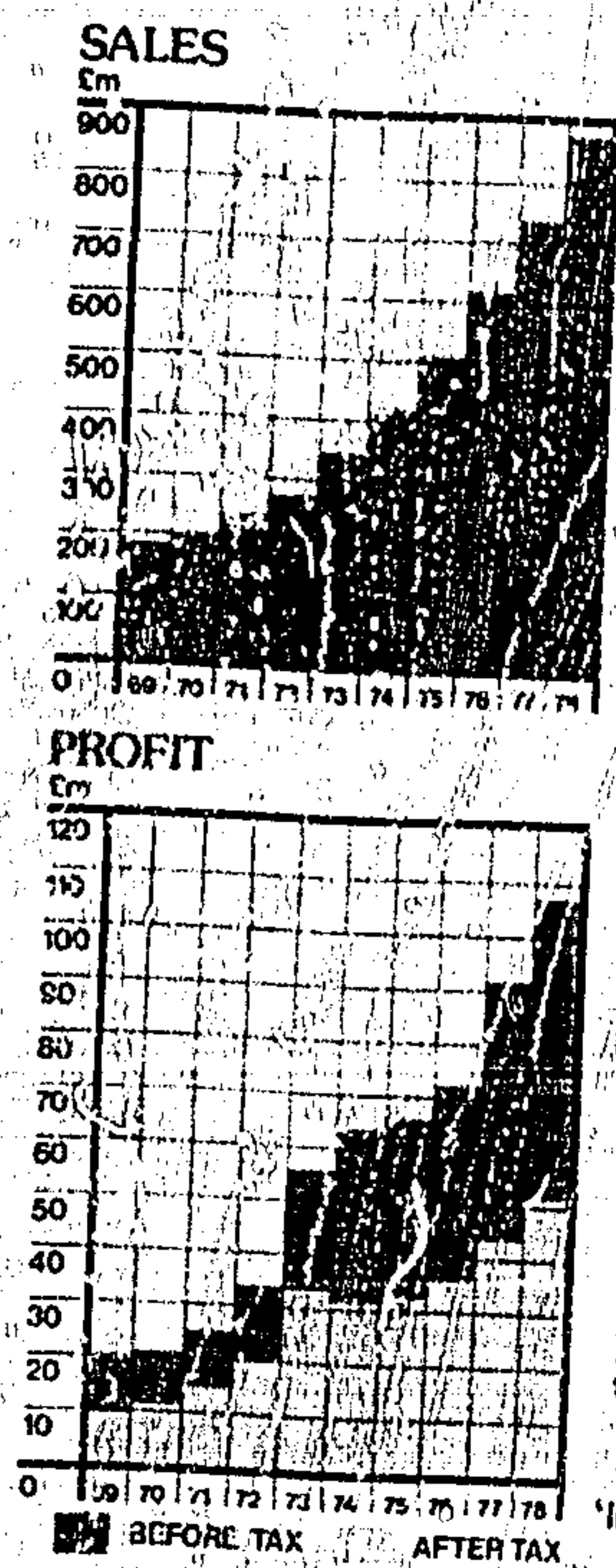
		Percentage held by	
		Parent	Subsidiaries
<b>Parent</b>		The Boots Company Ltd.	
<b>Subsidiaries</b> (Incorporated in Great Britain)			
	Boots The Chemists Ltd.	100	
	Boots Pure Drug Co. Ltd.	100	
	Boots International Ltd.	100	
	Boots Farm Sales Ltd.	100	
	Timothy Whites Ltd.	100	
	Whites Property Co. Ltd.		100
	The Crookes Laboratories Group Ltd.	100	
	Crookes Aneston Ltd.	100	
	Watts Brothers (Manchester) Ltd.	100	
<b>Subsidiaries</b> (Incorporated overseas)			
<b>Australia</b>	The Boots Company (Australia) Pty Ltd.	100	
<b>Belgium</b>	The Boots Company (Belgium) S.A.		100
<b>Canada</b>	G. Tamblin Ltd.		100
<b>France</b>	Laboratoires Dacour, S.A.	92.5	
	Société B.H.Y.S., S.A.	70	
<b>Holland</b>	The Boots Company (Holland) B.V.	100	
<b>India</b>	The Boots Company (India) Ltd.	53	
<b>Ireland</b>	The Boots Company (Ireland) Ltd.	100	
<b>Italy</b>	Boots-Formenti S.p.A.	55	
<b>Kenya</b>	The Boots Company (Kenya) Ltd.		100
<b>New Zealand</b>	Boots The Chemists (New Zealand) Ltd.	100	
<b>Nigeria</b>	The Boots Company (Nigeria) Ltd.	60	
<b>Pakistan</b>	The Boots Company (Pakistan) Ltd.	56.5	
<b>Singapore</b>	The Boots Company (Far East) Pte. Ltd.	100	
<b>South Africa</b>	The Boots Company (South Africa) (Pty.) Ltd.	100	
<b>Tanzania</b>	K.O.C. (Tanzania) Ltd.		100
<b>Thailand</b>	The Boots Company (Thailand) Ltd.	100	
<b>U.S.A.</b>	Rucker Pharmacal Co. Inc.		100
<b>West Germany</b>	Technochemie GmbH Verfahrenstechnik	70	

All the above shares held are ordinary shares. In addition the group owns 30.4% of the preferred shares in G. Tamblin Ltd.  
All the companies operate principally in the country of incorporation.

## Directors and Officers of Principal Subsidiaries

<b>Boots The Chemists Ltd.</b>			
Chairman	A. D. Spencer	L. W. Day, M.P.S.	K. Jervis, M.P.S.
Directors	K. Ackroyd, M.P.S. D. E. M. Appleby A. A. Binney S. R. Burdon, M.P.S. D. Cargill R. Clair, M.P.S. H. A. N. Clark R. G. Clow, M.P.S. J. Craig, M.P.S. J. G. Davies, M.P.S. T. K. W. Davies K. R. Whitesides	D. N. Edmundson J. J. E. Fergusson, M.P.S. M. Gibson A. B. Grove R. N. Gunn H. J. Hann D. Happs, M.P.S. G. M. Hourston, M.P.S. W. D. Jarrett, M.P.S. B. Jefferies	J. P. Lewis, M.P.S. A. B. McInnes, M.P.S. M. Owens, M.P.S. A. P. Ridley-Thompson J. M. T. Ross, F.P.S. B. Silverman, M.P.S. G. R. Solway B. H. C. Theobald A. G. S. Wilkes F. W. Wright, F.P.S.
Secretary			
<b>Timothy Whites Ltd.</b>			
Chairman	A. D. Spencer	R. N. Gunn	J. A. Prescott, M.P.S.
Directors	D. E. M. Appleby E. A. Cleaver T. K. W. Davies K. R. Whitesides	H. J. Hann B. Jefferies	C. D. Weston F. W. Wright, F.P.S.
Secretary			
<b>Boots Pure Drug Co. Ltd.</b>			
Chairman	D. E. M. Appleby	S. A. Hibbert, M.P.S.	C. E. G. Scarth
Directors	A. S. Beidas G. Buxton J. B. Carnell E. E. Cliffe A. H. Hawksworth I. A. Hawtin	B. Jefferies S. A. B. Kipping P. T. Main, M.D. Miss J. M. Savage	A. D. Spencer A. G. S. Wilkes J. H. Wilson
Secretary			
<b>Boots International Ltd.</b>			
Chairman	D. E. M. Appleby	J. W. Levin	K. T. Robinson
Directors	J. W. Buckler, M.B. B. Jefferies R. A. Johnson I. F. Kent I. A. Hawtin	P. T. Main, M.D. T. G. Richardson	A. D. Spencer A. G. S. Wilkes
Secretary			
<b>Boots Farm Sales Ltd.</b>			
Chairman	P. T. Main, M.D.	D. R. Knight	N. J. Reeves
Directors	D. J. Hignons I. F. Kent A. Hawtin	G. M. Renkin	
Secretary			

## Group Highlights for the year ended 31st March 1978



	Verkauf Umsätze	£883.8m	% change over previous year
Sales			+ 20.2%
of which:	dont:    davon:		
Sales in the UK	Ventes au Royaume Uni Umsätze innerhalb des Vereinigten Königreiches	£786.7m	+ 18.6%
*Exports from the UK	Ventes exportées du Royaume Uni Exporte aus dem Vereinigten Königreich	£ 45.4m	+ 20.6%
*Sales by overseas subsidiaries	Ventes des filiales étrangères Umsätze der ausländischen Tochtergesellschaften	£ 66.8m	+ 51.2%
Profit before taxation	Bénéfice avant impôt Gewinn vor Ertragsteuern	£107.0m	+ 17.4%
Profit after taxation attributable to shareholders	Bénéfice après impôt revenant aux actionnaires Anteil des Gewinns nach Ertragsteuern der auf die Aktionäre entfällt	£ 50.3m	
Earnings per share	Bénéfice par action Gewinn pro Aktie	14.1p	
Dividends to shareholders	Dividende proposée Dividendenvorschlag	£ 10.6m	
Retained in the business	Report à nouveau Gewinnvortrag	£ 39.7m	
Capital expenditure during the year	Investissements de l'année Investitionen während des Jahres	£ 40.1m	

\*Includes sales within the group totalling £14.1m.

## Value Added Statement for the year ended 31st March 1978

	£m	1978 £m	%	£m	1977 £m	%
Sales and other income		890.8			742.8	
Less cost of materials and services purchased		607.9			455.4	
<b>Value added</b>		<b>282.9</b>			<b>247.4</b>	
<b>Shared as follows:</b>						
<b>Employees</b>						
Wages, salaries, profit earnings, bonus and pension fund contributions		161.2	57.0		145.0	58.6
<b>Governments</b>						
Taxation on profits		56.0	19.8		47.9	19.3
<b>Reinvested in the business</b>						
Depreciation	12.7			10.5		
Profit retained	39.7	52.4	18.5	33.7	43.2	17.5
<b>Providers of capital</b>						
Interest on borrowing	2.0			.8		
Minorities share of profit	.7			.8		
Dividends to shareholders	10.6	13.3	4.7	9.7	11.3	4.6
		<b>282.9</b>	<b>100.0</b>		<b>247.4</b>	<b>100.0</b>

## Statement by the Chairman Dr. G. I. Hobday

### Sales, Profit and Taxation

Total sales increased by 20.2% to £884m and about 11% of our sales are now made in countries other than the UK.

Group profit before taxation increased by 17.4% to £107m, the first time in the history of the Company that more than £100m has been achieved.

After deducting taxation of £56.0m, and the interests

of minority shareholders in various overseas companies of the Group, the profit attributable to shareholders is £50.3m which is equivalent to 14.1 pence per share compared with 11.9 pence last year.

This year we have adopted a different method of demonstrating the effects of inflation and the real value of our profits. The Current Cost Statement on

page 30 shows the results for the year based on the interim recommendations for inflation adjustments issued by the Accounting Standards Committee. On a Current Cost basis profit before taxation is estimated at £88.3m and the return on capital employed becomes 8.3% compared with 13.2% on an historical basis.

### Dividends and Retained Profits

An interim dividend of 1.0779 pence per share was paid in January and the Directors have declared a second interim dividend of 1.9133 pence per share. This represents the maximum permitted under

present Government controls. If the rate of tax credit changes to 33%, a further dividend (third interim) will be declared, for which provision has been made in the accounts. There remain retained earnings for the year

of £39.7m as funds for the maintenance and continuing expansion of our operations.

### Capital Investment Programme

A record £56m was approved and committed during the year for capital investment projects in the UK and abroad. However, actual expenditure, although higher

than last year, was lower than planned due to delays and some difficulties in the building industry. We continue to direct our substantial programme towards

increasing Boots' share of important retail and industrial markets in the UK and in the world at large, particularly the EEC and North America.

### Retail Division

In my statement last year reference was made to the re-organisation of the Group into two main operating divisions. The Retail Division with a Retail Divisional Board is now responsible for the conduct of our retailing activities throughout the world. Boots The Chemists and Timothy Whites in this country provide the main strength of these activities whilst our new acquisition in Canada and our venture into France provide bases for expanding business overseas. The Division has assumed responsibility for the retailing operation in New Zealand and will be considering the possibilities of increasing its market share and profitability.

The strength of our management reserves here in the UK have enabled us to send a team of senior executives to the Canadian company and whilst there is much to be done, we are confident of their ability to make Tambyn's a profitable acquisition. Likewise, we have recently strengthened our management of Sephora in France with a senior executive to assist in the very necessary development of that business.

The indications are that consumer spending will

become more buoyant in the United Kingdom during 1978-79 and we are well poised to take full advantage of this in our stores.

#### Boots The Chemists

Counter sales for the year increased by 17.8%, about a quarter of which was real volume increase. Our Centenary Own Brand Offers in the late summer were extremely successful and retail sales generally picked up somewhat in the autumn. We had a good Christmas followed by an encouraging March quarter, during which the effects of an increase in real incomes became increasingly apparent.

Boots Own Brands continue to grow in number and importance to us. Our customers identify these products as an essential part of the value and selection we offer and they account for about a third of all our retail sales.

Jesse Boot began to manufacture and pack his first Own Brand products over 90 years ago and for much of that time the range was confined to pharmaceuticals, cosmetics, toiletries and household

products manufactured in the Company's own factories and conforming to strict quality control standards. Now about half of our total Own Brand sales are derived from products made to our specification but manufactured for us in this country and elsewhere in the world. These comprise such diverse products as children's clothing, toiletry accessories, electrical products such as hairdryers, shavers and kettles, photographic equipment and film, calculators, typewriters and music centres. This merchandise is subject to similar quality assurance tests as the products of our own manufacture. During the course of the year we shall be opening new laboratories to assist in the quality control of Own Brand developments at a capital cost of approximately £1 million.

#### Dispensing

Our National Health Service dispensing increased by 1.7% in volume last year despite a 3% decrease in the number of branches. Although dispensing forms a smaller proportion of our total business than it does for retail chemists as a whole, we do have a large

number of small branches which depend upon National Health Service dispensing for their viability. In any case, with our branches dispensing in total well over one million prescriptions a week the profitability of this business is of great concern to us. We therefore support the Pharmaceutical Services Negotiating Committee in its endeavours to ensure that this vital part of the National Health Service is adequately remunerated.

We continue to invest heavily in training our staff and the programme has been intensified during the year. The objectives are to run our shops more efficiently and more productively and to give a more informed service to our customers especially for those groups of merchandise which require it.

Capital investment in new and modernised shops has remained at a high level and amounted to £21m. During the year a further 20,000 square metres of net selling space was added, bringing the total to over 390,000 square metres. Major stores were opened in Leeds, Glasgow, Blackpool, Ilford, Hounslow, Follistone, Orpington, Stirling and Wellingborough and extensions were completed at Barnsley and Aberdeen. We continued our policy of closing a number of small, inadequate and unprofitable shops and ended the year with 1,269 branches, a decrease of 34.

During the current financial year, there will be a greater emphasis on the replacement of small shops with modern, efficient units; 37 chemist shops will be replaced or enlarged. In addition, we plan to open new large stores in Manchester, Taunton, Kettering, Leamington Spa and Cokerchester. Major extensions will be undertaken at Bristol, Croydon, Huddersfield and Wakefield.

The property market has not yet fully recovered and the number of new shopping centre developments is still relatively small. The adverse effect of legislation and, in particular, the Community Land Act and the penal rate of Development Land Tax, is an inhibiting factor to large scale development. Increasingly, therefore, we are having to undertake our own building and, including the land purchase, a single large branch can cost up to £5m and take up to four

years before it is open for trading. In such circumstances, the increasing difficulty in obtaining planning permission within a reasonable time is of serious concern, as any delay on a major project adds significantly to the capital cost.

Our new Shopfitting Factory, mentioned in last year's report, became fully operational during the year and has provided much improved facilities and greater capacity to meet present needs and future expansion of our retail outlets.

#### Timothy Whites

This chain experienced another difficult year of trading, primarily due to the fall in consumers' spending. Clearly the demand for better quality cookware and tableware suffered in the economic conditions which prevailed for much of the year. However, although sales increased by only 10.6% over the twelve months, there was a marked improvement in performance as the year progressed, ranging from 5½% in the June quarter to 19½% in the March quarter.

Continued effort is being made to establish a trading image coupled with attractive merchandise. In the latter context we have been pleased with the range developed especially for the group under the label of 'The Working Kitchen', a range which Timothy Whites featured at the Ideal Home Exhibition this year with great success.

#### Warehousing and Distribution

Our Warehouse and Transport Sections have again had a busy year and have coped well with the increased volume they have been required to handle.

During the year, organisational changes have been made to improve staff participation and increase even further the present high standards of efficiency in warehousing and distribution. Productivity has again increased through the co-operation of staff at all levels. Each department now has a Productivity Group with the responsibility for generating new ideas in order to maintain the improvement.

Plans for the design of a large new warehouse are well advanced. It will be a pallet silo holding nearly 100,000 pallets and will provide stock to an existing

warehouse which is being re-planned and fitted out to deal with a planned throughput about six times that currently achieved.

#### Tamblyn Canada

Since the acquisition of this company in September 1977, our management team have taken positive steps to strengthen the administration of the chain, to improve the quality of its merchandise and service and generally to enhance its image to our customers. Four new stores will be opened during the year and considerable re-fitting and changes to store layout are being undertaken. Counter sales and dispensing are budgeted to show real growth from these developments and every attention is being paid to further prospects for increasing our representation both in Ontario and elsewhere in Canada. In this latter respect I am pleased to tell you that we have agreed, subject to Bank of England and Canadian Foreign Investment Review Agency approval, the acquisition of Isaacs Pharmacy Limited retailing as Tamblyn's in 50 stores situated in British Columbia, Saskatchewan, Alberta and Manitoba. We are confident that these stores will provide a valuable addition to our Canadian company.

#### New Zealand

The retailing division of our New Zealand company commenced trading in 1936 and now consists principally of nine pharmacies from Auckland in the North Island to Dunedin in the South. Consistent with the depressed state of the New Zealand economy, our increase in pharmacy sales was restricted in 1977 to 10.9% compared with 14.7% in the previous year.

The year to date has been more promising with sales ahead of budget and materially ahead of the same period last year. Undoubtedly we are reaping some benefits from our re-fitting programme but much still remains to be done to bring our shops into line, both with our competitors and with the standards we endeavour to set in the UK.

#### Sephora France

Sales during 1977 increased by 16.7%, representing further volume growth in what was a very difficult year for French retailers generally, and particularly so for

## Statement by the Chairman

those such as Sephora with a high dependence on sales of high class cosmetics and fragrances. Clearly the profitability of the company is dependent upon our having more than one store. It has proved

difficult to find further shops of suitable size and in the right location as quickly as we had hoped. However, two such sites have now been identified and the Board has agreed in principle to open two further

stores in 1979/80, subject to satisfactory completion of negotiations.

### Industrial Division

The Industrial Division which is now controlled by its own Divisional Board is responsible for the Company's world wide interests in the research and development, manufacture and marketing of pharmaceuticals, agrochemicals and consumer products. Of its 12,300 total staff about 2,500 are located outside the United Kingdom.

#### Research and Development

Froben, an important new product for the treatment of rheumatic disorders which was discovered in our research laboratories, was launched in the United Kingdom in September 1977. While our product Brufen remains an extremely valuable form of routine therapy for the treatment of patients suffering from rheumatic diseases, Froben is specially suitable for the treatment of those with severe, long standing, or difficult forms of arthritis. The new product has been well received by prescribing doctors and has become the fastest growing pharmaceutical launched in this country during the last year. Froben is a potent inhibitor of enzymes which synthesise prostaglandins, substances which act in the body to produce inflammation, pain and fever, and considerable interest is being shown by the medical profession in the investigation of Froben for clinical conditions other than rheumatism where prostaglandins are thought to be involved.

During the year we commenced work on a new extension to our laboratory facilities to provide a significant increase in the space available for our medical and pharmaceutical research teams.

#### Manufacture

The Chemical Production Department had a busy year commissioning new plant for the manufacture of the speciality chemicals required for the new products derived from our own research. All our facilities for Brufen, including Phase V mentioned in the last

report, have been operating at full capacity and a £3m extension for making a starting material for Brufen synthesis began production in March of this year. Froben is now being produced on an increasing scale and a new 1,600 tonne capacity plant for amitraz is under construction at Beeston and should be in production by 1979.

Planning is already in hand for additional capacity likely to be required in the future. Since it is now impracticable to construct further major chemical plants on our existing sites in Nottingham we have recently agreed to acquire land at Cramlington, Northumberland, on which we plan to site future chemical manufacture in the United Kingdom.

We have decided to strengthen considerably our business in intravenous infusion solutions for use in hospitals in the United Kingdom and we are doing this in association with the American Hospital Supply Corporation of the United States. In addition to our well known product Polyfusor, which is used for intravenous drip therapy in hospitals, we are now marketing the Steriflex range previously marketed by American Hospital Supply Corporation. In consequence we are converting our Basingstoke factory for the exclusive manufacture of these large volume sterile products at a cost to date of about £1m.

In our Pharmaceutical factories some two-thirds of the total staff of 2,750 are employed in the manufacture of consumer products sold by the Retail Division. Nearly 1,000 work on cosmetics and toiletries and we are one of Europe's largest manufacturers of these products.

The increasingly international nature of our operations has required greater support from the parent company and we now have, within our Production and Engineering management, a team which gives our overseas companies and associates

help with building projects and new production lines, so that our overseas facilities can be developed to their full potential.

#### Pharmaceutical Marketing

Last year we re-organised this activity under a Director of Pharmaceutical Marketing into four geographical areas, each controlled by an Area Director stationed locally.

During the year total sales increased by 23% but profits were adversely affected by the strengthening of sterling against many international currencies and by the continuation of the world economic recession.

Area 1, including the United Kingdom, Europe and the Americas—Sales of prescription medicines generally within the United Kingdom were very good. Both Brufen and Froben produced excellent results. As mentioned earlier we decided to make a more concentrated effort in the intravenous infusion solution market and indeed in the hospital sector in general, and to this end we have set up a specialised Hospital Sales Force. This has proved successful and unit sales of our Polyfusor range of intravenous solutions have increased by 30%.

The introduction of a higher (75 mg) strength of our anti-depressive product, Prothiaden, has been well received by doctors and Prothiaden has now achieved a creditable 13% prescription market share in this highly competitive therapeutic category.

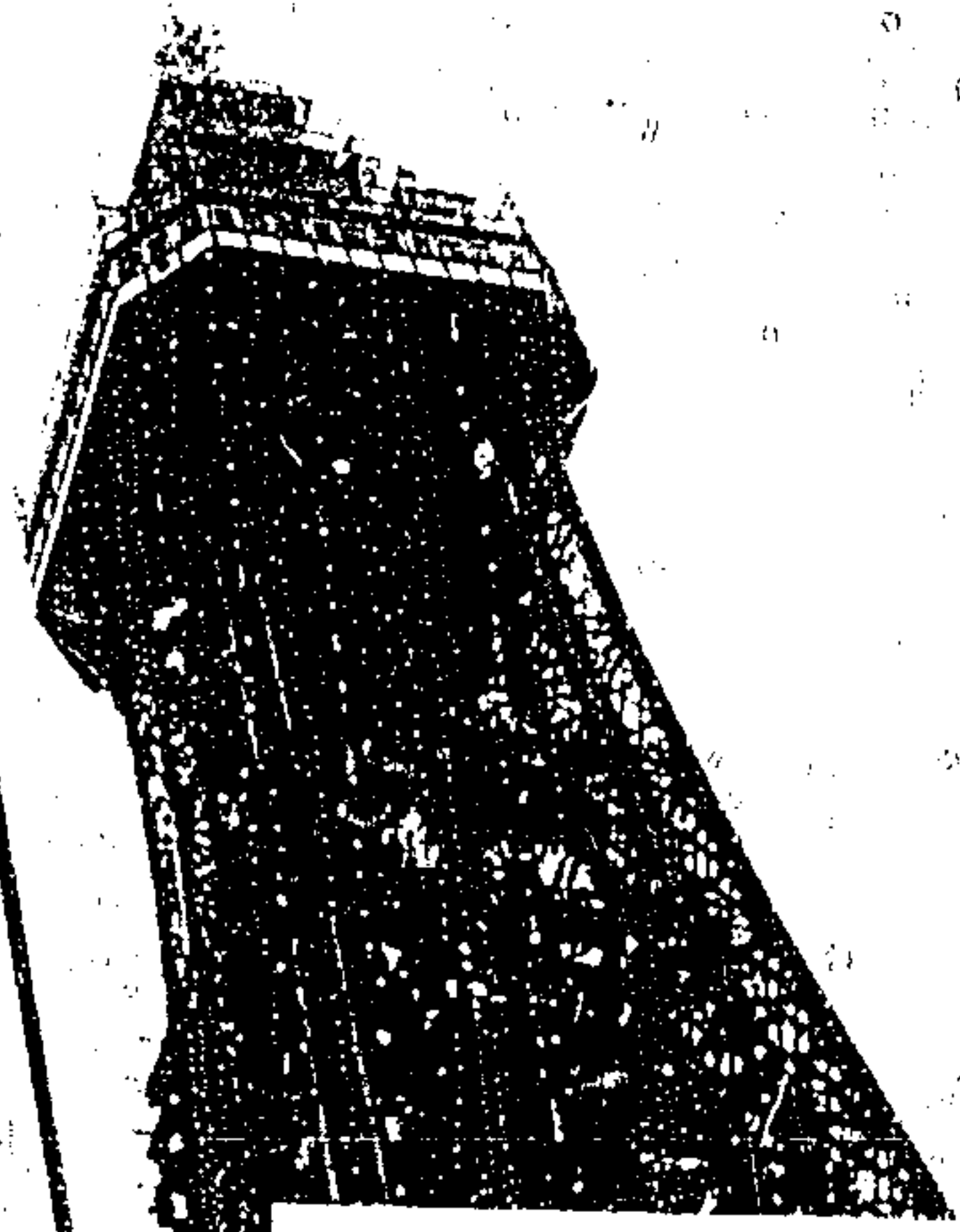
Crookes Aneston, our United Kingdom consumer marketing company, has again done good business although during the last year the low-calorie sweetener market, in which our products Sweetex and Hermesetas dominate, has been somewhat depressed, principally due to adverse publicity on saccharin from North America. We are continuing to investigate new product possibilities for this group.



"Just by the Tower" is already a fairly descriptive title for the branch in Blackpool which provides an interesting background for the illustrations of new or extended tramway stations on this page.

1. Snooping Street Glasgow
2. Market Place B'.
3. Hard Street Glasgow
4. A'.
5. L'.

Though the visual interest of each of these branches is different, it does not meet a specific or unusual requirement, as the illustrations which are nevertheless available, show.





## Statement by the Chairman

Both sales of fine chemicals and contract manufacture for third parties had an excellent year, achieving record annual growth rates. We have won several new contracts which augur well for future years.

We are enjoying record sales of ibuprofen, the active ingredient of Brufen, through our U.S. licensee, The Upjohn Company, and profits on supplies and royalties on sales make a substantial contribution to our net profit. The integration of Rucker Pharmaceutical Company Inc., our wholly owned subsidiary in the United States, into our organisation is proceeding satisfactorily and the development of Rucker Pharmaceutical into a vehicle for the marketing of Boots products in the United States is a major company objective.

Pharmaceutical exports to Europe have again shown good growth especially for Brufen, which has increased its penetration into many major markets including Scandinavia and Germany. The trend towards Brufen 400 has continued and has helped considerably in our fight against the severe competition which we are facing from several major international companies. Froben was introduced into Switzerland in January 1977, its first overseas launch. While the introduction of this product into other countries is subject to the delays of obtaining product registration, we believe that Froben will be a significant factor in the future development of our international pharmaceutical business.

The performance of our affiliate companies in Europe has been mixed. In Italy we have suffered along with other pharmaceutical manufacturers from adverse trading conditions but nevertheless Brufen has maintained anti-rheumatic market leadership in that country. Our companies in Holland and Belgium have produced satisfactory results throughout the year and the French company, Laboratoires Dacour, which

successfully launched Brufen 400 in September 1977 has improved its penetration of the anti-rheumatic market in France.

**Area 2, including Africa, the Near East and Pakistan**—Exports to the Middle East and Africa have shown continued growth, with our Brufen sales to the Middle East being particularly encouraging. The Nigerian company performed well during the year and our companies in Kenya and Pakistan produced excellent sales growth. Particularly noteworthy is the performance in Pakistan where sales increased by 30% over the previous year.

**Area 3, including India, Bangladesh, Sri Lanka, Iran and Turkey**—The Indian company had an excellent year with sales and profits showing significant increases over the previous year. Last March I had the pleasure of visiting this company. I met the majority of the staff and was much impressed by their high morale and dedication to the company. During my visit I opened our first chemical factory in India, which is located at Ahmednagar. The factory is now manufacturing ibuprofen, which is then made into Brufen tablets at our pharmaceutical factory in Bombay. Later, material for our amoebicide Furamide will also be manufactured. The factory was completed ahead of schedule, a most creditable performance by our Indian colleagues in what has been for them a new area of technology.

Exports to the area show a satisfactory increase over the previous year, although Turkey was affected by a chronic shortage of foreign exchange which restricted our exports.

**Area 4, including Australia, New Zealand, the Far East and Japan**—We suffered some setbacks in exports to Japan as a result of fierce competition from other brands of ibuprofen. We believe these products are

being manufactured by methods which contravene our patents, and action through the courts in Japan has been instituted but the proceedings are expected to be lengthy. Froben will be launched during the next financial year and is expected to increase substantially our share of the Japanese anti-rheumatic market. The Boots Company (Thailand) Ltd. showed continued strong growth in the current year and we have decided to build a small pharmaceutical factory on a six acre site outside Bangkok.

Consumer sales by our Australian and New Zealand subsidiaries were much affected by the economic recession in those countries, but with the continued excellent growth of Brufen and other ethical products our overall sales increases were satisfactory. In Australia we have recently acquired Lancel Pharmaceuticals Limited, a small company in the small-volume parenteral and generic product fields. We believe that this will be a valuable base for the future expansion of our hospital business in Australia.

### Agrochemical Marketing

Our Agrochemical operations had a good year with significant increases in sales both at home and overseas. Internationally our business continues to expand, and in particular Mitac and Taklic are being well accepted by farmers in many countries of the world. Through our agents and associates we are entering new markets as local product registration permits are granted. The international phenoxy herbicide market has been very depressed for the last 12 months which has had a significant effect on our sales of these products. Boots Farm Sales achieved a satisfactory increase in business in the face of difficult trading circumstances, particularly adverse weather conditions which tended to affect the use of the Cornox range of weedkillers.

### Staff

At the year end we were employing 67,000 people in the UK—1,500 more than a year ago. We are particularly pleased that during the year we were able to give special employment to 325 young people

under the various Government schemes and are planning for a greater number this year. As part of the work information programme in the Nottingham area, 1,000 pupils from local schools visited factories,

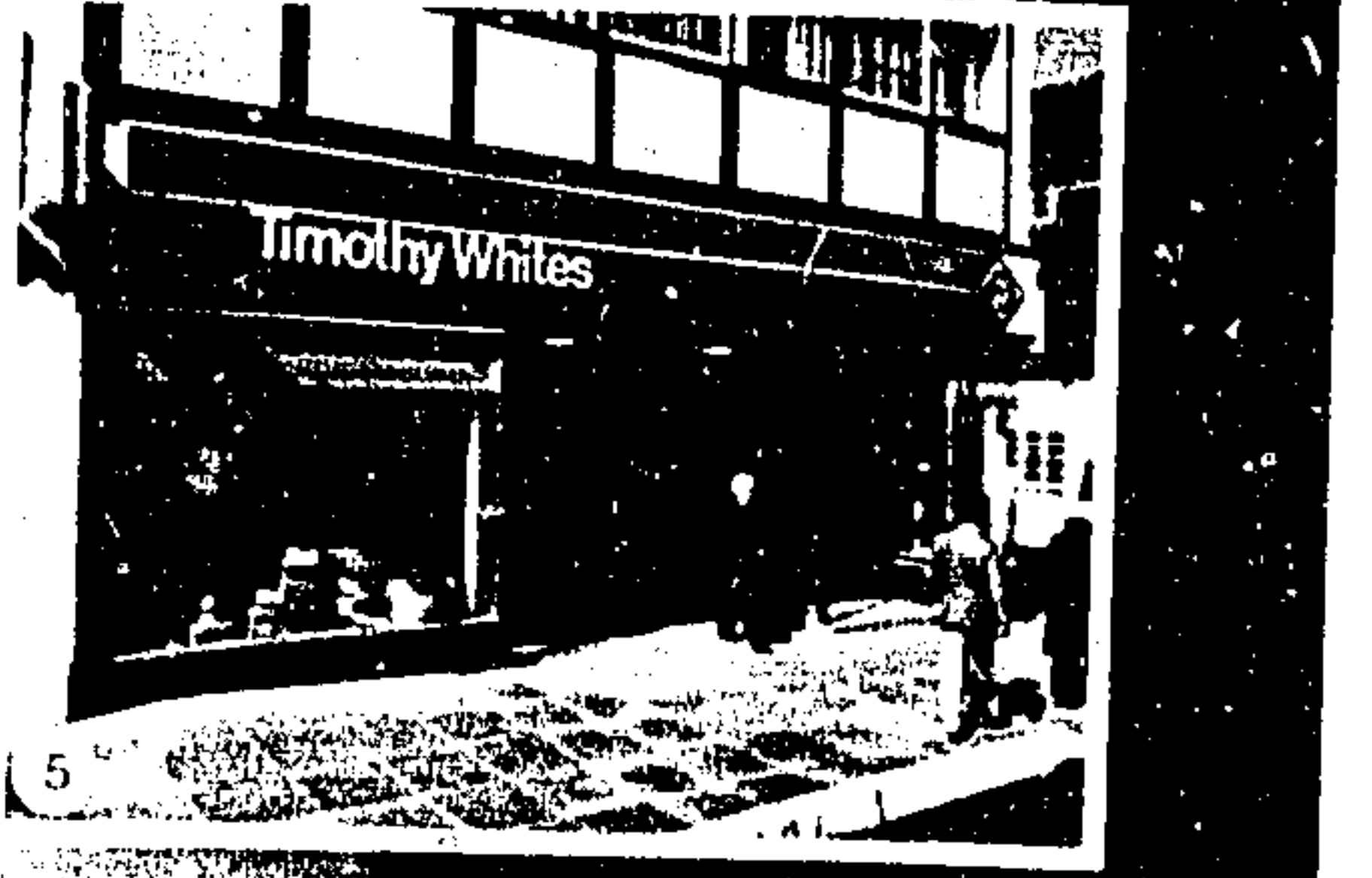
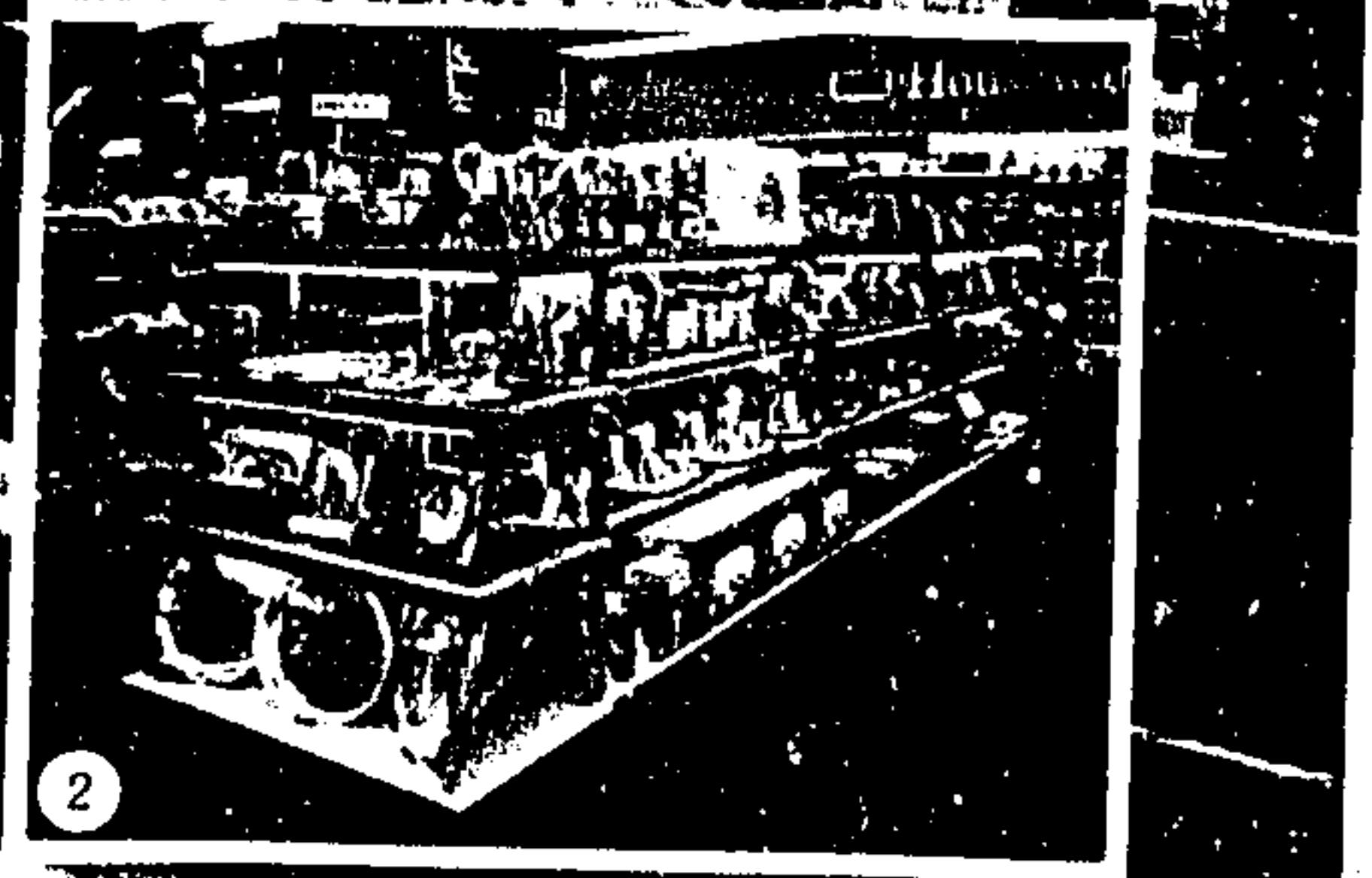
warehouses or offices on our Beeston site.

In general we continue to enjoy excellent staff relations, both in our trade union and non-unionised



Various facets of retail activity are illustrated on this page against a background of the Cosmetic Department in the new Southwell Street, Glasgow branch.

1. Some of the Cosmetic Agencies in the new main branch in Leeds.
2. The Houseware Department in Blackpool.
3. One of the Farthing stores in Ontario, Canada.
4. The Sephora shop in Fins.
5. The Timothy Whites branch in Luton, opened last Autumn.



## Statement by the Chairman

areas. Like other companies we have been faced with the pressures created by the Government's incomes policy, but staff have reacted responsibly and realistically. As a result we are pleased to report that our annual pay review and negotiations were completed for all groups within the Government's Phase 3 guide-lines. Part of our settlement has been a productivity agreement covering all staff, which we hope will benefit both the individuals and the business. In addition we have been able through submissions to the Central Arbitration Committee to proceed towards the implementation of new pay structures in one or two important areas. Work is continuing on new job evaluation schemes on a wider basis with a view to strengthening, when circumstances permit, our overall position in the labour market and so improve our capability to recruit and retain good calibre staff.

Training programmes for all staff have been extended during the year. We have again taken advantage of the facilities offered by management training colleges and have recognised the need to improve further our staff's knowledge of the products they sell as our inventory becomes ever more diverse.

The participation of staff in the business of the Company has continued to develop through the linked channels of our Staff Council structure and our trades unions. Direct representation of our Industrial staff is arranged through seventeen staff councils, while in our shops, committees have been established in the two hundred larger branches, which together employ half our retail staff, and by the year-end this structure will be extended to cover two-thirds of the staff. At the apex of our council structure are the important Wholesale and Retail Central Staff Councils. These meet in Nottingham four times a year under the chairmanship of the Staff Director and are proving invaluable as a further means of consulting staff and involving them in the decisions of the business.

There are nine trades union negotiating groups involving twelve different unions in the Industrial

Division and in addition the Union of Shop, Distributive and Allied Workers (U.S.D.A.W.), our largest union, has a representational agreement now covering staff below supervisory level in fifteen shops. In August 1977 we appointed, with U.S.D.A.W., our first full-time Chief Shop Steward with responsibilities covering all our UK Production and Warehouse sites where U.S.D.A.W. is the recognised union.

The Joint Boots Pharmacists' Association, a staff association with a membership of 40% of those eligible to join, consults regularly with the Company on matters of mutual interest.

Certainly the most important matter in which staff have been involved during the year was the question of pensions. The representation of staff on our long-established Pensions Advisory Committee was broadened and this committee, together with all Staff Councils, trades unions and managers, has engaged in the massive job of explanation and consultation in connection with the Government's new pension arrangements embodied in the Castle Scheme. The staff overwhelmingly preferred to continue with the present Boots Pension Scheme and after the most careful consideration the Board has agreed to contract out of the State Scheme. Still on the subject of pensions, it was with pleasure that the Company was able in 1977 to make possible an increase of up to 40% for pensioners.

The Share Participation Scheme for staff agreed by shareholders last year has been well received. The Scheme, for employees with more than five years' service, involves their saving for five years, through a Save As You Earn contract, money to purchase shares. Almost one in ten of those eligible took up the first option offer. If all exercise their options in 1983 their total holding will be half a million shares.

1977 was, of course, our Centenary Year and staff contributed much to its success, both in their support for the merchandising efforts linked to it and in their enthusiasm for the many activities arranged to celebrate it. Indeed some of the commemorations

derive entirely from the efforts of the staff; for example they raised £17,000 towards a Boots room in a cancer care unit to be built in Nottingham. In order to mark the year the Company has inaugurated the Boots Centenary Travelling Scholarships, open to members of staff for travel and a short period of study in an overseas country in which there is a Boots presence. The first six Scholarships will be awarded this year. It was appropriate, too, during our Centenary Year that we should purchase a fine country house, Daglingworth Place, near Cirencester, where members of our staff under particular stress can spend a week of quiet relaxation. Daglingworth Place is a fitting replacement for its predecessor, The Knowle at Great Missenden, bought by the Company in the early days of the last war.

There is much public discussion of profit-sharing these days and our own experience is that a well-devised scheme can lead to a very positive approach by staff to the necessity of earning profit and from that a willingness to accept change in the interests of greater efficiency. Our own scheme is twenty years old this year. The basis is that every year 8½% of the UK trading profit goes into a fund which staff in the UK share according to wage or salary and years of service. The fund this year will amount to £8.7m and the minimum share will be 3.19 weeks' pay.

We shall be issuing this year, complementary to this Company Report to Shareholders, our third Report to Staff. The Reports have been well received by staff and we were greatly encouraged when last year's Report won first prize in the national competition organised by the Industrial Society and Accountancy Age. Any shareholder who wishes to see this year's Report to Staff may obtain a copy by writing to the Company Secretary.

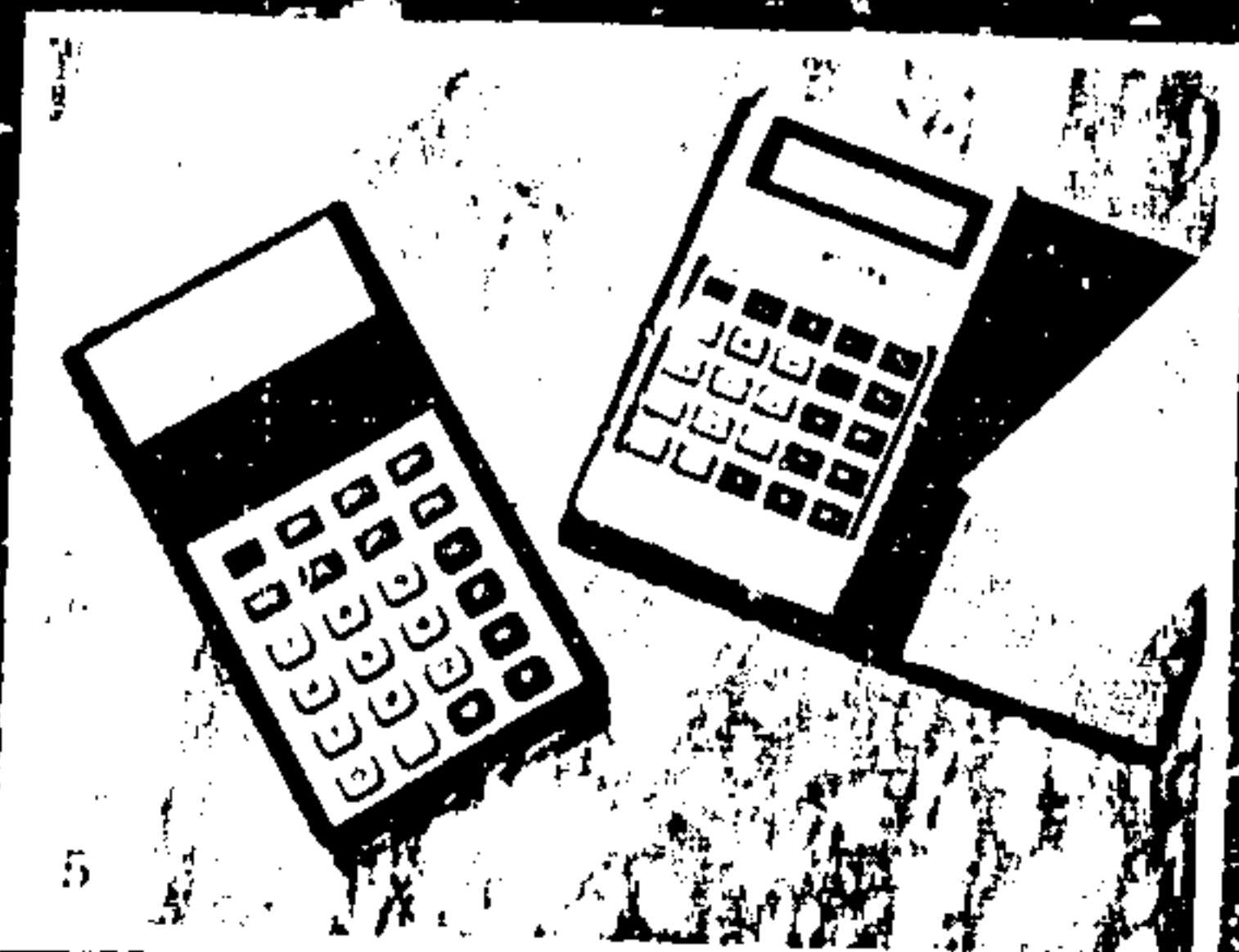
Our Company has a very fine staff. Whether at home or overseas (where we employ over four thousand) Boots people identify themselves closely with the business. All members of the Board join me in thanking them all for their work in this past year.

# RAIN FLOW

Imagine  
You're taking a slow bath  
with an English candle  
The night has just been  
The clouds are beginning  
And the garden  
from golden light  
An old lady  
with  
in the  
the light-headed

Also featured in the 1977-78 catalog are the following products:

1. A selection of new products to meet your needs
2. Some of the new products to be seen
3. An example of the "Best of the Best" award from the Department of the Interior
- 4 and 5. The 1800 Bond's Reporter and the new electronic calculator's new products to be seen



## Statement by the Chairman

### Social Responsibilities

From the time of Jesse Boot himself the Company has recognised its social responsibilities and we believe this is reflected in our attitude to the public we serve, to our employees and shareholders, to our suppliers and to the local communities in the places where we operate. A Board Social Responsibilities Committee,

under the chairmanship of a non-executive director, Mr. John Arkell, sits in an advisory and consultative capacity and has recently drafted a full statement of the Company's philosophy. Management and staff (through the staff councils) have endorsed the statement, which has now been published under the

title 'Social Responsibilities at Boots'.

Any shareholder who wishes to have a copy may obtain one by writing to the Company Secretary.

### Board Appointments

I am very pleased to report that my colleagues Mr. M. J. Verey and Mr. A. D. Spencer have been appointed Vice-Chairmen of the Board. Michael Verey, who has had a very distinguished career in the City, has served as a non-executive director of our company for fourteen years.

Alan Spencer, who joined the company in 1938, is the Chairman and Managing Director of Boots The Chemists Ltd. and is responsible for all our retailing activities. In making these appointments we are reverting to a pattern which was a regular feature of our board structure some years ago. I am sure that the

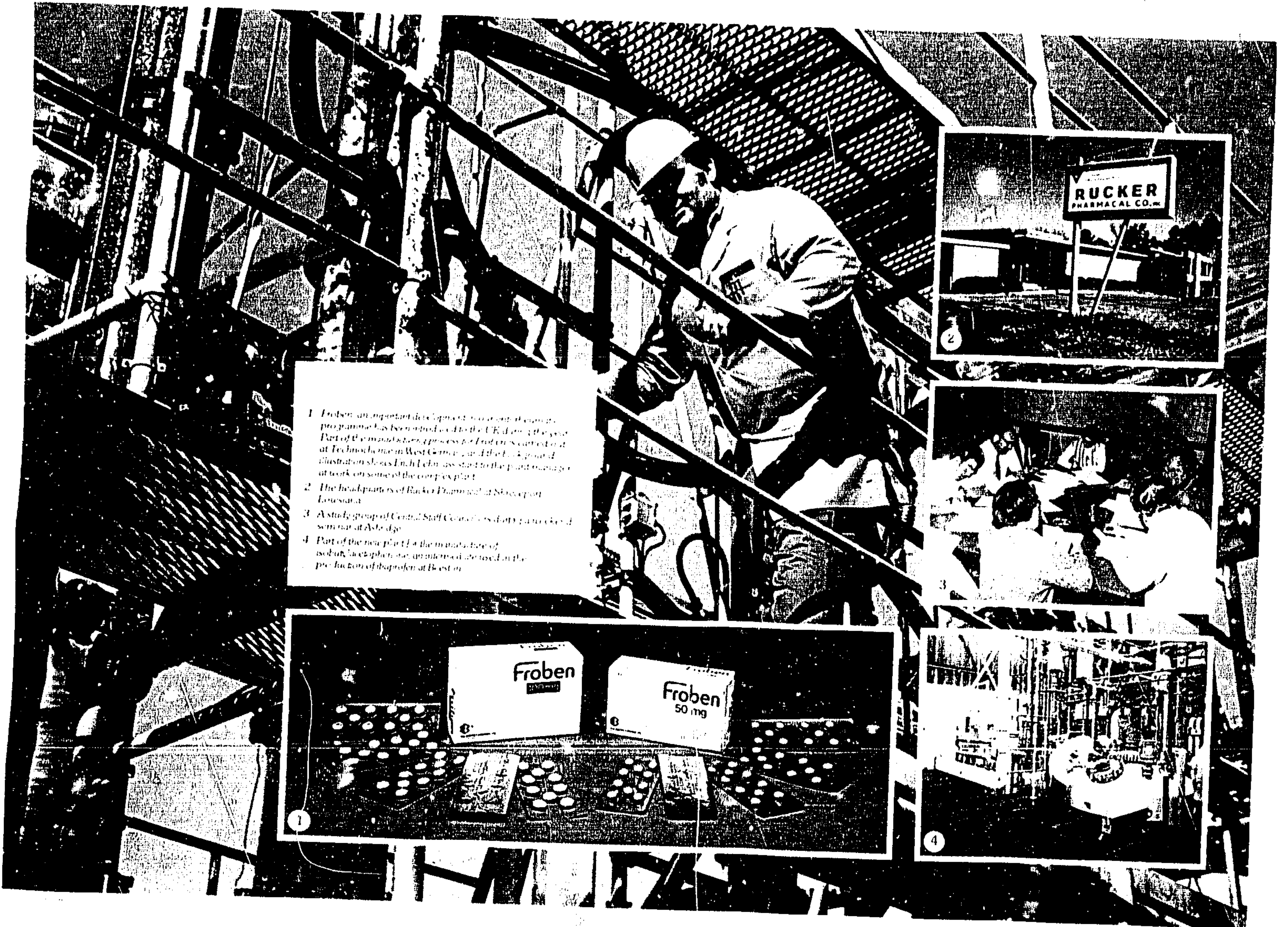
appointments are a fitting honour to the individuals concerned and will be of considerable assistance to the Chairman and other Directors.

### Prospects

While 1977-78 was a year of progress for the Company, in some respects the overall result was disappointing. We succeeded in making real volume increases in sales on both sides of the business but the net profit result was below our budgeted expectation. Consumer spending in this country was depressed for much of the year and depression in the domestic economies in many of our markets overseas together with exchange variations had their effects on our Industrial Division. The emergence of the United Kingdom and many countries abroad from a state of

economic recession, if indeed they are emerging, is slow. In such circumstances competitive pressure from retailers and manufacturers to increase sales inevitably squeezes margins. At the same time inflation, which although at a reducing rate is still substantial, raises operating costs. In this highly competitive situation we have to deploy all our marketing skills and improve our operating efficiencies as much as possible if we are to maintain the sort of profitable progress of our Company to which we have been accustomed. I am confident that we have such ability and our

comparatively modest net profit increase in a year characterised by high increases in staff costs should spur us on to maintain that progress. Our Company is strong financially and we shall continue to invest in improving and extending our facilities so that we can make full use of the opportunities which may be present today and be placed in a very good position at the time when recession is behind us and our customers' spending potential is restored.

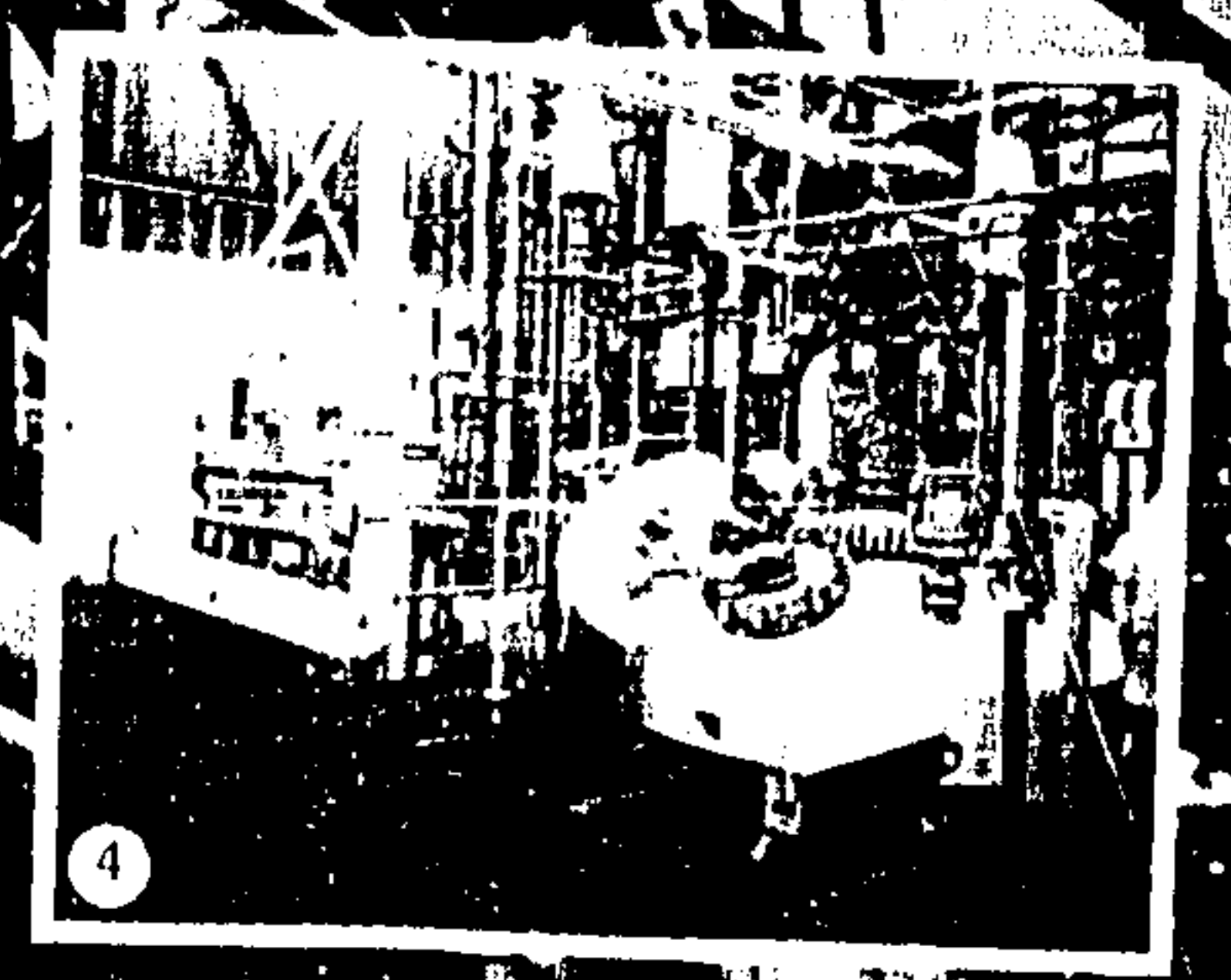
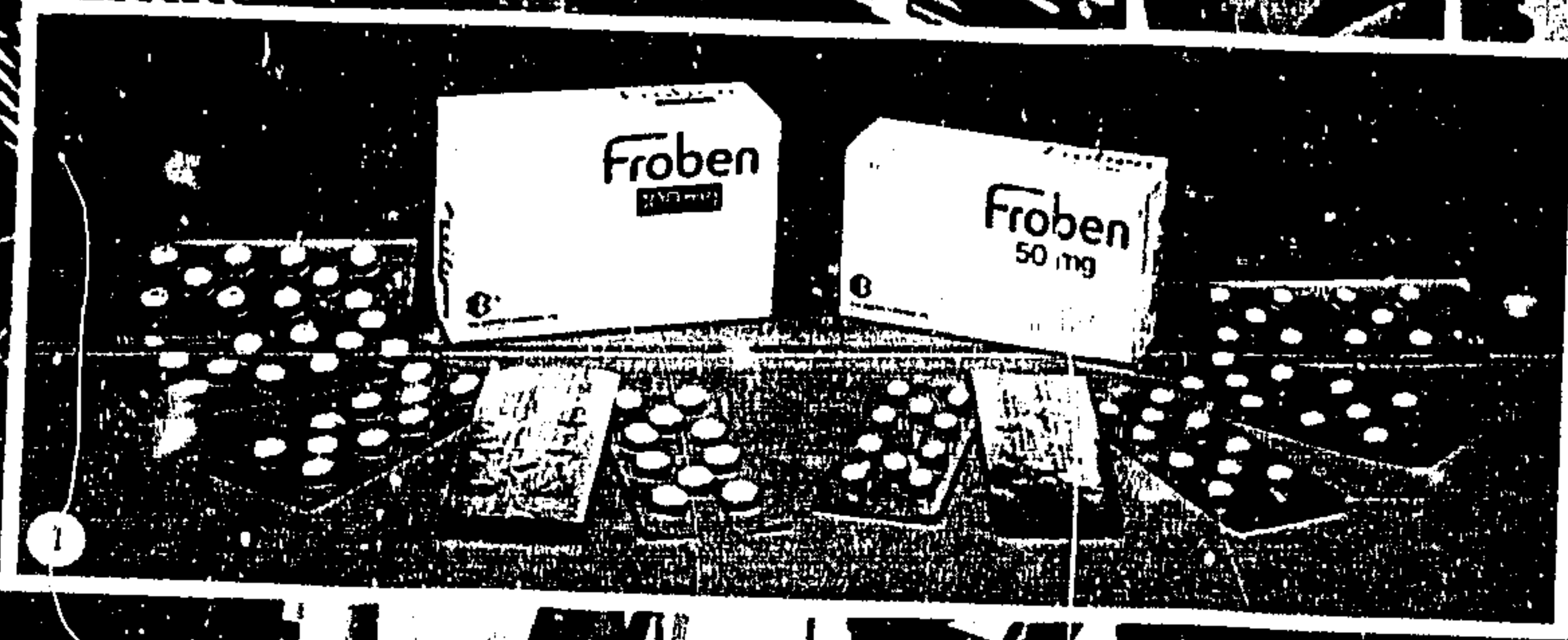


1 Froben, an important development in our 40-year programme has been introduced to the UK during the year. Part of the manufacturing process for Froben is carried out at Technochem in West Germany and the following illustration shows the plant manager at work on some of the complex plant.

2 The head planters of Rucker Chemical at Slidell, Louisiana.

3 A study group of Central Staff Consultants at a packed seminar at Ashdod.

4 Part of the new plant for the manufacture of isobutyl acetate, an intermediate used in the production of isoprofenol at Boston.



## Group Profit and Loss Account for the year ended 31st March 1978

	Notes	1978 £m	1977 £m
Sales		883.8	735.0
Profit before taxation	2	107.0	91.1
Taxation	3	56.0	47.9
Profit after taxation		51.0	43.2
Attributable to minority interests		.7	.8
Profit attributable to shareholders	4	50.3	42.4
Dividends			
Excess provision relating to 1977 third interim		(1)	.1
Interim paid of 1.0779p per share		3.8	3.4
Second interim declared of 1.9183p per share		6.8	6.1
Provision for third interim of 0.0290p per share		.1	.1
3.0252p per share			
Profit retained		39.7	32.7
Earnings per share	5	14.1p	11.9p

\*£8.8m was charged against profits in the year to 31st March 1977 as a contribution towards a deficit in Boots Pension Fund. The directors do not think it necessary to make a further provision against the profits of the year to 31st March 1978.

The notes on pages 23 to 28 form part of the accounts

## Sources and Applications of Funds for the year ended 31st March 1978

	1978		1977	
	£m	£m	£m	£m
<b>Sources</b>				
Profit before taxation		107.0		91.1
Depreciation		12.7		10.5
Book value of fixed assets sold		2.5		2.3
Pension provision		—		8.8
		<u>122.2</u>		<u>112.7</u>
Borrowed money		25.3		—
		<u>147.5</u>		<u>112.7</u>
<b>Applications</b>				
Capital expenditure		40.1		37.0
Investments		—		.2
Working capital:				
Increase in stocks	24.9		33.7	
Increase in debtors	8.2		11.9	
Increase in creditors	(11.1)		(17.1)	
		<u>22.0</u>		<u>28.5</u>
Repayment of borrowed money		.1		.1
Payment to Boots Pension Fund		1.6		8.8
Dividends paid		10.0		8.9
Taxation paid		26.3		33.3
Other applications		.2		.5
		<u>100.3</u>		<u>117.3</u>
Subsidiaries acquired:				
Fixed assets	5.1			
Goodwill	15.0			
Stocks	8.4			
Debtors	2.8			
Cash	7.4			
Creditors	(11.8)			
Pension provision	(.5)			
Minority interests	(1.1)			
		<u>25.3</u>		<u>—</u>
		<u>125.6</u>		<u>117.3</u>
Increase (1977 decrease) in net cash and short term investments		21.9		(4.6)
		<u>147.5</u>		<u>112.7</u>



## Balance Sheets 31st March 1978

	Notes	Group		Parent	
		1978 £m	1977 £m	1978 £m	1977 £m
<b>Sources of capital</b>					
<b>Shareholders' interests</b>					
Share capital	6	89.0	89.0	89.0	89.0
Reserves	7	178.7	152.5	109.0	80.3
		<b>267.7</b>	241.5	<b>198.0</b>	169.3
Borrowed money	8	34.8	11.6	24.1	7.8
Minority interests		3.5	1.9	—	—
Deferred taxation	9	74.1	47.8	36.3	16.7
Provision for pensions	10	7.7	8.8	7.2	8.8
		<b>387.8</b>	311.6	<b>265.6</b>	202.6
<b>Employment of capital</b>					
Fixed assets	11	224.0	194.4	52.0	41.7
Subsidiaries	12	—	—	115.8	99.1
Investments	13	1.0	1.0	1.0	1.0
Net current assets	14	62.8	116.2	96.8	60.8
		<b>387.8</b>	311.6	<b>265.6</b>	202.6

G. I. HOBDAV  
D. E. M. APPLEBY | Directors

The notes on pages 23 to 28 form part of the accounts

## Notes relating to the Accounts

### 1. Accounting policies

#### Consolidation

The group accounts are prepared under the historical cost convention adjusted by the revaluations of certain properties. The accounts combine the results of the company and its subsidiaries after eliminating inter-company profits and providing for minority interests in subsidiaries. The excess of cost of investments in subsidiaries over net assets acquired has been written off to reserves. Subsidiary companies are those in which the company holds, either directly or through another subsidiary, more than fifty per cent of the equity share capital.

The accounts of all UK subsidiaries are made up to 31st March 1978, whereas the accounts of overseas subsidiaries are made up to 31st December 1977 in order to facilitate early presentation of group accounts.

The accounts of overseas subsidiaries are converted into sterling at rates of exchange approximating to those ruling at 31st March 1978. Profits and losses arising on conversion of net current assets are included in profit before taxation and where they relate to fixed assets less foreign currency loans, are dealt with through reserves.

#### Sales

These comprise sales to external customers and exclude value added tax.

#### Depreciation

Depreciation is calculated to write off assets during their expected normal lives. Buildings and fittings are depreciated in equal annual instalments, and plant, including vehicles, by fixed percentages of residual book values.

#### Stock

Stock is valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

#### Research and development

Expenditure, other than on buildings and plant, is charged against profits in the year in which it is incurred.

#### Pension funding

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in a trustee-administered fund completely separated from the company's finances. Certain overseas companies operate their own pension schemes.

#### Deferred taxation

This comprises:

- (i) Tax at 52% on the excess of the book value of those fixed assets which qualify for taxation allowances over their taxation written down value.
- (ii) Tax at 52% on other major timing differences.
- (iii) Stock appreciation relief.
- (iv) A deduction for advance corporation tax recoverable.

No provision has been made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries.

## Notes relating to the Accounts

	1978 £m	1977 £m
<b>2. Profit before taxation</b>		
Includes:		
Income from short term investments and is an yr charging:	7.0	7.8
Depreciation	12.7	10.5
Profit earning bonus for staff	8.7	7.4
Bank and other short term interest	3	4
Interest on borrowed money		
Repayable within five years	1.4	
Not repayable within five years	6	8
Computer and plant hire	1.5	1.2
Remuneration of auditors	2	1

	1978 £m	1977 £m
<b>3. Taxation</b>		
The charge on the profit of the year consists of:		
UK corporation tax at 52%		
Current year	32.9	28.7
Prior year transfer from deferred taxation	(6.0)	
	26.9	
Relief for overseas taxation	(3.2)	(2.5)
Deferred taxation		
Current year	20.4	17.0
Prior year adjustment	6.0	
	26.4	
Total UK taxation	50.1	43.2
Overseas taxation	5.9	4.7
	56.0	47.9

	1978 £m	1977 £m
<b>4. Profit retained by parent company</b>		
Attributable to shareholders	50.3	42.4
Deduct profit retained by subsidiaries	11.0	8.7
Profit of parent company	39.3	33.7
Deduct dividends	10.6	9.7
Retained by parent company	28.7	24.0

**5. Earnings per share**  
The calculation of earnings per share is based on earnings of £50.3m (1977 £42.4m) and 356.2m ordinary shares in issue.

	1978 £m	1977 £m
<b>6. Share capital</b>		
Ordinary shares of 25p each:		
Authorised	100.0	100.0
Issued and fully paid	89.0	89.0

Under the terms of the savings-related share option scheme, approved by shareholders in July 1977, options may be granted enabling employees with over five years' service to subscribe for an aggregate of 10,000,000 ordinary shares of the company at approximately 90% of market price. So far, options exercisable from 1983 to 1985 at 178p per share have been granted in respect of 557,238 shares.

	Group £m	Parent £m
<b>7. Reserves</b>		
At 31st March 1977	<b>152.5</b>	<b>80.3</b>
Profit retained	<b>39.7</b>	<b>28.7</b>
Goodwill arising on acquisitions	<b>(15.0)</b>	
Currency adjustments	<b>1.5</b>	
At 31st March 1978	<b>178.7</b>	<b>109.0</b>

#### 9. Deferred taxation

	Group		Parent	
	1978 £m	1977 £m	1978 £m	1977 £m
On excess of book value of fixed assets over their taxation written down value	<b>43.3</b>	34.1	<b>19.0</b>	13.8
On other major timing differences	<b>(2.8)</b>	(8.0)	<b>(5.3)</b>	(8.4)
Stock appreciation relief	<b>37.0</b>	25.0	<b>26.0</b>	14.6
Advance corporation tax recoverable	<b>(3.4)</b>	(3.3)	<b>(3.4)</b>	(3.3)
	<b>74.1</b>	47.8	<b>36.3</b>	16.7

	Repayment dates	Group		Parent	
		1978 £m	1977 £m	1978 £m	1977 £m
<b>8. Borrowed money</b>					
<b>Secured loans:</b>					
3½% stock	1982	<b>1.0</b>	1.0		
8½% stock	1978/82	<b>.3</b>	.3		
<b>Unsecured loans:</b>					
6% stock	1978/83	<b>2.1</b>	2.1	<b>2.1</b>	2.1
6½% stock	1983/88	<b>.9</b>	1.0		
7½% stock	1988/97	<b>5.7</b>	5.7	<b>5.7</b>	5.7
8% stock	1986/91	<b>1.4</b>	1.5		
Foreign currency	1982	<b>23.4</b>		<b>16.3</b>	
		<b>34.8</b>	11.6	<b>24.1</b>	7.8

(a) All loans are repayable at par, except the 8% stock, which is repayable at £105 per cent.  
 (b) The 6½% and 8% stocks are redeemable by yearly sinking funds.

	Group		Parent	
	1978 £m	1977 £m	1978 £m	1977 £m
<b>10. Provision for pensions</b>				
At 31st March 1977	<b>8.8</b>	8.8	<b>8.8</b>	8.8
Subsidiary acquired	<b>.5</b>			
Charged against profits		8.8		8.8
Payment to Boots Pension Fund	<b>(1.6)</b>	(8.8)	<b>(1.6)</b>	(8.8)
At 31st March 1978	<b>7.7</b>	8.8	<b>7.2</b>	8.8

## Notes relating to the Accounts

### 11. Fixed assets

#### Cost or valuation

At 1st April 1977

Capital expenditure

Subsidiaries acquired

Disposals

Transfers and adjustments

At 31st March 1978

Cost

Independent valuation 1958

1959

1965

Directors' valuation 1971

#### Depreciation

At 1st April 1977

Depreciation for year

Subsidiaries acquired

Disposals

Transfers and adjustments

At 31st March 1978

#### Net book value at 31st March 1978

The tenure of properties is as follows:

Cost or valuation

Depreciation

Net book value

Property £m	Group Fixtures and plant £m	Total £m	Property £m	Parent Fixtures and plant £m	Total £m		
144.6	113.6	258.2	25.4	41.5	66.9		
13.6	26.5	40.1	2.1	13.4	15.5		
3.5	5.7	8.9	—	—	—		
(2.4)	(3.2)	(5.6)	—	(1.3)	(1.3)		
(.3)	(.5)	(.8)	—	—	—		
159.0	141.8	300.8	27.5	53.6	81.1		
113.5	141.8	255.3	17.9	53.6	71.5		
9.6	—	9.6	9.6	—	9.6		
1.2	—	1.2	—	—	—		
33.6	—	33.6	—	—	—		
1.1	—	1.1	—	—	—		
159.0	141.8	300.8	27.5	53.6	81.1		
19.2	44.6	63.8	6.8	18.4	25.2		
2.7	10.0	12.7	.6	4.1	4.7		
1.0	2.8	3.8	—	—	—		
(.5)	(2.6)	(3.1)	—	(.8)	(.8)		
(.1)	(.3)	(.4)	—	—	—		
22.3	54.5	76.8	7.4	21.7	29.1		
136.7	87.3	224.0	20.1	31.9	52.0		
Freehold £m	Long lease £m	Short lease £m	Total £m	Freehold £m	Long lease £m	Short lease £m	Total £m
114.9	19.3	24.8	159.0	25.9	.4	1.2	27.5
4.4	2.2	5.7	22.3	7.0	—	.4	7.4
100.5	17.1	19.1	136.7	18.9	.4	.8	20.1

	1978 £m	1977 £m
<b>12. Subsidiaries</b>		
(a) Investments:		
At book value of net assets at acquisition	15.3	15.3
At cost	29.6	13.3
	<b>44.9</b>	<b>28.6</b>
(b) Loans:		
Due to parent	10.3	10.2
Due to subsidiaries	(.1)	(.1)
Current accounts:		
Due to parent	69.4	63.1
Due to subsidiaries	(8.7)	(2.7)
	<b>70.9</b>	<b>70.5</b>
	<b>115.8</b>	<b>99.1</b>

(c) Investments in overseas subsidiaries are expressed at local currency cost converted into sterling at the exchange rate ruling on 31st March 1978.

(d) A list of the principal subsidiaries is shown on page 6.

	1978 £m	1977 £m
<b>13. Investments</b>		
Listed:		
Holding in Kakenyaku Kako in Japan at cost		
Market value on Tokyo Stock Exchange—£2.8m (1977 £1.1m).	1.0	1.0

#### 14. Net current assets

Stocks  
Debtors  
Cash and short term investments  
Creditors  
Due to bankers  
Taxation  
Dividends

	Group		Parent	
	1978 £m	1977 £m	1978 £m	1977 £m
Stocks	177.5	144.2	89.7	70.3
Debtors	60.8	49.8	39.6	33.9
Cash and short term investments	103.4	73.8	88.3	66.5
	<b>341.7</b>	<b>267.8</b>	<b>217.6</b>	<b>170.7</b>
Creditors	111.4	88.5	82.3	65.9
Due to bankers	26.6	26.3	24.4	25.6
Taxation	34.0	30.5	7.2	12.1
Dividends	6.9	6.3	6.9	6.3
	<b>178.9</b>	<b>151.6</b>	<b>120.8</b>	<b>109.9</b>
	<b>162.8</b>	<b>116.2</b>	<b>96.8</b>	<b>60.8</b>

Overdrafts of certain overseas subsidiaries amounting to £0.6m at 31st December 1977 (1976 £0.4m) were secured on the assets of those subsidiaries.

#### Stocks comprise:

	1978 £m	1977 £m	1978 £m	1977 £m
Manufacturing: Raw materials	12.9	10.6	12.4	10.2
Work in progress and finished goods	20.6	16.5	18.2	13.7
Retailing	33.5	27.1	30.6	23.9
Overseas subsidiaries	128.5	108.8	59.1	46.4
	15.5	8.3	—	—
	<b>177.5</b>	<b>144.2</b>	<b>89.7</b>	<b>70.3</b>

## Notes relating to the Accounts

	Group		Parent	
	1978 £m	1977 £m	1978 £m	1977 £m
<b>15. Commitments</b>				
Future capital expenditure approved by the directors and not provided for in these accounts is as follows:				
Contracts placed	28.9	22.9	11.0	7.2
Contracts not placed	17.2	6.6	1.1	1.1
	<b>46.1</b>	<b>29.5</b>	<b>12.1</b>	<b>8.3</b>

### 16. Contingent liabilities

Certain overseas subsidiaries had discounted bills of exchange at 31st December 1977 amounting to £0.4m (1976 £0.5m).

The parent company has guaranteed the bank overdrafts of certain subsidiaries to a total of £0.8m at 31st March 1978 (1977 £0.7m) and has a liability of £1.4m (1977 £0.5m) for uncalled capital in subsidiaries.

## Report of the Auditors to the members of The Boots Company Ltd.

### 17. Remuneration of directors and senior UK employees

- (a) The total remuneration of the directors of the parent company consists of fees £24,000 (1977 £18,000) and other remuneration £364,000 (1977 £314,000).  
 (b) The remuneration of the chairman was £32,000 (1977 chairman and highest paid director £42,000) and of the highest paid director was £42,000.  
 (c) Numbers of directors together with UK employees earning over £10,000 during the year are noted below. The tables show estimated take-home pay calculated at the higher end of each salary band assuming the recipient is married and without children.

Directors:	Tax	Take-home pay	Numbers	
	£	£	1978	1977
£40,001 - 42,500	28,200	14,300	2	1
£32,501 - 35,000	22,000	13,000	—	2
£30,001 - 32,500	19,900	12,600	1	—
£27,501 - 30,000	17,900	12,100	2	—
£25,001 - 27,500	15,800	11,700	—	1
£20,001 - 22,500	11,600	10,900	4	1
£17,501 - 20,000	9,700	10,300	4	4
£2,501 - 5,000	—	—	4	—
£0 - 2,500	—	—	—	4
<b>Employees:</b>				
£20,001 - 22,500	11,600	10,900	3	—
£17,501 - 20,000	9,700	10,300	12	—
£15,001 - 17,500	7,900	9,600	45	8
£12,501 - 15,000	6,100	8,900	27	36
£10,001 - 12,500	4,600	7,900	126	39

We have examined the accounts set out on pages 20 to 28 which have been prepared on the basis of the accounting policies set out on page 23.

In our opinion they give a true and fair view of the state of affairs of the company and of the group at 31st March 1978 and of the profit and sources and application of funds of the group for the year to that date and comply with the Companies Acts 1948 and 1967.

We have examined the current cost statement together with the notes thereon set out on pages 30 and 31 for the year ended 31st March 1978. In our opinion the statement has been properly prepared in accordance with the methods described in the notes.

PEAT, MARWICK, MITCHELL & CO.  
Chartered accountants, Birmingham and London

22nd May 1978

## Group Financial Record

		£m									
		1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Sales and profits	<b>Sales</b>	<b>883.8</b>	735.0	611.2	502.8	414.2	341.5	272.5	227.9	198.9	189.9
	<b>Profit before taxation</b>	<b>107.0</b>	91.1	72.2	65.7	63.7	56.7	34.2	25.0	20.2	19.1
	Taxation	<b>56.0</b>	47.9	35.9	34.0	32.8	22.8	14.5	10.7	9.2	9.1
	<b>Profit after taxation</b>	<b>51.0</b>	43.2	36.3	31.7	30.9	33.9	19.7	14.3	11.0	10.0
	Minority interests	<b>.7</b>	.8	.6	.3	.2	.1	.1	—	—	—
Funds retained	Dividends	<b>10.6</b>	9.7	8.7	8.0	7.3	6.9	6.0	5.1	4.5	3.9
	Income tax on dividends	—	—	—	—	—	1.4	3.8	3.4	3.1	2.8
	Profit retained	<b>39.7</b>	32.7	27.0	23.4	23.4	25.5	9.8	5.8	3.4	3.3
	Depreciation	<b>12.7</b>	10.5	8.7	7.3	6.2	5.6	5.2	4.9	4.4	4.2
Capital expenditure	<b>52.4</b>	43.2	35.7	30.7	29.6	31.1	15.0	10.7	7.8	7.5	
Sources of capital	Share capital	<b>89.0</b>	89.0	89.0	44.5	44.5	44.5	44.5	44.5	44.5	44.5
	Reserves	<b>178.7</b>	152.5	119.8	134.2	110.9	89.0	63.4	54.9	49.5	45.4
	Shareholders' interests	<b>267.7</b>	241.5	208.8	178.7	155.4	133.5	107.9	99.4	94.0	89.9
	Borrowed money	<b>34.8</b>	11.6	11.7	11.8	11.9	12.3	12.4	12.4	12.5	12.6
	Other sources	<b>85.3</b>	58.5	41.1	27.0	9.6	4.3	4.9	4.0	3.9	5.4
Employment of capital	<b>387.8</b>	311.6	261.6	217.5	176.9	150.1	125.2	115.8	110.4	107.9	
Other statistics	Fixed assets	<b>224.0</b>	194.4	169.8	148.1	121.3	104.5	99.5	95.8	91.9	89.8
	Investments	<b>1.0</b>	1.0	.8	—	—	—	—	—	—	—
	Net current assets	<b>162.8</b>	116.2	91.0	69.4	55.6	45.6	25.7	20.0	18.5	18.1
	<b>387.8</b>	311.6	261.6	217.5	176.9	150.1	125.2	115.8	110.4	107.9	
Other statistics	Earnings per share (note 1)	<b>14.1p</b>	11.9p	10.0p	8.8p	8.7p	—	—	—	—	—
	Dividend per share (gross/including tax credit) adjusted for capitalisation issues	<b>4.6p</b>	4.1p	3.8p	3.4p	3.1p	2.9p	2.8p	2.4p	2.2p	1.9p
	Profit after taxation as % of net book value of capital employed (note 2)	<b>13.2</b>	13.9	13.9	14.6	17.5	22.6	15.7	12.3	10.0	9.2

### Notes

1. No figures are shown for earnings per share prior to 1974 since they would not be on a comparable basis due to changes in the taxation system.

2. The book value of the group's property which amounts to 35% of the capital employed is, in the opinion of the directors, substantially below its current value.



## Current Cost Statement for the year ended 31st March 1978

	Notes	1978	
		£m	£m
Sales			883.8
<b>Profit before taxation as in historical cost accounts</b>			<b>107.0</b>
<b>Adjustments</b>			
Depreciation	2	(10.9)	
Cost of sales	3	(9.7)	
			(20.6)
<b>Operating profit</b>			<b>86.4</b>
Gearing adjustment	4		1.9
<b>Adjusted profit before taxation</b>			<b>88.3</b>
Taxation	5		35.9
<b>Profit after taxation</b>			<b>52.4</b>
Attributable to minority interests			.6
<b>Profit attributable to shareholders</b>			<b>51.8</b>
Dividends			10.6
<b>Adjusted retained profit</b>			<b>41.2</b>

## Notes relating to the Current Cost Statement

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**1. Basis**

The current cost statement has been prepared on the principles set out in the notes below. The basis used is that recommended by the Accounting Standards Committee in 'Inflation accounting - an Interim recommendation', dated November 1977.

**2. Depreciation**

The depreciation adjustment represents the additional charge against profits as a result of depreciating fixed assets on estimated current cost rather than on historical cost. It has been calculated by applying the appropriate industry indices, prepared by the Central Statistical Office, to the depreciation charge on retail and industrial fittings and plant. Depreciation on buildings has been revalued using indices of construction costs. Asset lives have not been reassessed.

**3. Cost of sales**

The cost of sales adjustment represents the difference between the historical manufacturing or purchase cost and the estimated current cost of those goods at the date of sale as derived from the group's costing systems.

**4. Gearing adjustment**

This reduces the depreciation and cost of sales adjustments by the proportion of finance provided other than as shareholders' funds. These funds have been increased by the revaluation of fixed assets and stock and that proportion of deferred tax which the directors consider is not payable in the foreseeable future.

Land has been revalued using an index constructed by professional valuers within the company. Other fixed assets and stock have been revalued using the same methods as for depreciation and cost of sales adjustments.

**5. Taxation**

The taxation charge represents tax on the year's profits payable in the foreseeable future, calculated in accordance with the proposals contained in Exposure Draft 19 issued by the Accounting Standards Committee.

**6. Overseas companies**

Overseas subsidiaries have generally calculated their adjustments using local indices or information available from their own costing systems.

## Directors' Shareholdings

This table sets out the interests of the directors and their families in the share and loan capital of the company (holdings at 1st April 1977 or at the date of appointment, are shown in brackets where they differ).

	Number of shares Beneficial Interests	Otherwise held	Loan stock Beneficially held
G. I. Hobday	24,000	—	£101
M. J. Verey	7,300	—	—
A. D. Spencer	2,500	—	—
D. E. M. Appleby	4,000	—	—
P. T. Main, M.D.	1,774 (1,100)	—	—
J. H. Arkell, C.B.E.	3,000	—	—
R. N. Gunn	1,774 (1,100)	400 (—)	£23
H. J. Hann	5,000 (2,400)	—	—
B. Jefferies	5,686	—	£177
Lord Redmayne, P.C., D.S.O.	4,000	—	—
B. F. W. Scott, C.B.E.	4,000 (1,000)	—	—
A. G. S. Wilkes	1,100	—	—
F. W. Wright, F.P.S.	800	—	—

Directors' holdings at 22nd May 1978 are unchanged.

## Shareholders

At 31st March 1978 the register of shareholders contained 107,448 accounts, of which almost 66,000 had 1,000 or fewer shares.

About 300 accounts each held more than 100,000 shares. Almost all of these are insurance companies, pension funds and other institutional investors representing the interests of many thousands of people.

The directors are not aware that any person held 5% or more of the share capital of the company at 22nd May 1978. The largest shareholding (an insurance company) was under 3%.

## Financial Calendar

### Dividend and interest payments

#### Ordinary dividends

- Final 1977/78: Announced 18th May 1978.  
Payable 20th July 1978.
- Interim 1978/79: Announced 16th November 1978.  
Payable 10th January 1979.
- Final 1978/79: Proposed mid-May 1979.  
Payable mid-July 1979.

6% loan stock interest:  
Paid 30th June, 30th September,  
31st December and 31st March.

6½% loan stock interest:  
Paid 1st September and 1st March.

7½% loan stock interest:  
Paid 30th September and 31st March.

8% loan stock interest:  
Paid 31st July and 31st January.

### Results

For half-year: Announced 16th November 1978.

For the year: Announced mid-May 1979.

Report and accounts: Circulated mid-June 1979.

For capital gains tax purposes the market value of a Boots share on 6th April 1965 was 40p and of £100 6% loan stock was £90.37½.